Report of the Public Expenditure Review Committee on the Ministry of Education of Sri Lanka

August 2023

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Submitted to the Secretary of the Ministry of Finance
August 2023

1.0Executive summary

This report is based on the findings of the Public Expenditure Review Committee for the Education Sector. The mandate of this committee is to identify actions that can contribute to the rationalization of government expenditure in the Education Sector in Sri Lanka in order to strengthen the country's economic recovery.

The report is based on a review of the 2023 budget estimates of the Ministry of Education using a zero-based budgeting approach, as well as consultative meetings with relevant authorities and officers.

It reports on some of the key challenges that have come to light in the four key (sub-)sectors of the education sector and proposes a series of recommendations for each sub-sector going forward.

The four key sub-sectors are: general education; higher education; skills development and vocational education; and science and innovation.

1.1 General Education

The general education (GE) sector consumed 83.3 % of the recurrent budget of the entire education sector in the 2023 estimates. Of this, over 60% went to salaries in most years. Despite these numbers, there is evidence to show that the general education subsector is in crisis. One example includes a recent 10,000-sample survey reporting that only 7% of Grade 3 students have achieved the expected levels of literacy and numeracy; other examples include reports of children dropping out, fainting in school, etc.

Cost savings can be made on the printing of textbooks, the cost of which escalated ten-fold in one year; options for cost reduction should be explored accordingly, including means-testing for free items such as textbooks and uniforms.

The current role of the National Education Commission (NEC) is unclear; however, it is recommended that the policy formulation through this body should be prioritized; the NEC should be closely integrated with the Ministry of Education and implementation, giving priority to standards development (in coordination with NIE) and assessment of learning outcomes (in coordination with the Department of Examinations).

It is clear that a certain amount of re-organization and re-assignment of organizations and activities is required to reduce duplication and wastage If all "national schools" are positioned under the provincial departments of education and non-core activities such as civil works are also devolved, it is likely that the massive number of employees currently attached to Ministry of Education (65,323) will be greatly reduced. It is not that these employees will lose their positions but that they will be doing different tasks in different organizations. Given the teacher vacancies that are being filled currently, some of these education-service employees can go back to teaching.

Recommendations for the sector are summarised in Table 1.

1.2 Higher Education

The review of the higher education sector[1] revealed some of the challenges that the higher education sector is faced with. Heavy emphasis on undergraduate education and physical infrastructure development has led to a lack of improvement of post-graduate teaching and research over time.

An effective and regular method for evaluation of undergraduate academic programmes is lacking.

Overall, a 'whole institution' approach has been lacking, and links between universities and industry/private sector, as well as the internationalization of state universities have been weak. The entrepreneurial character is markedly absent in Sri Lankan universities.

A further challenge is the considerable outflow of Sri Lankan graduates abroad for employment, particular graduates of the local medical faculties and Ceylon German Technical Training Institute (CGTTI).

Recommendations for the sector are summarised in Table 1.

1.3 Skills Development and Vocational Education

The vocational education sector only receives 2.5% of the total budgetary allocation for the education sector, despite its considerable potential to contribute to an export-led economy. Challenges faced by the sector include the over-emphasis on investment in capital expenditure, despite the ongoing economic crisis. The sector also lacks productivity measures to assess the performance and efficiency of resource use.

Another set of challenges relates to the lack of market-orientation with courses not aligned with market needs or development priorities, contributing to poor quality education and job-skills mismatch.

There is a lack of an entrepreneurial culture and as such a lack of motivation to generate revenue despite the great potential to do so, if course offerings are aligned with market needs and development priorities. A reluctance to charge fees for courses also stems from the perception that the majority of students come from low-income backgrounds, though there could be merit in conducting a proper evaluation of the fee-paying capabilities of students.

The assessment of organizational and management effectiveness is hampered due to inappropriate strategic planning, performance monitoring, and a lack of an effective management information system (MIS) among certain institutes in the sector. Such assessments are needed to improve the efficiency and productivity of the sector.

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[1] This was by no means a comprehensive review, due to limited time and resources, however, there is merit in bringing to these challenges to the forefront of this discussion.

Recommendations for the sector are summarised in Table 1.

1.4 Science and innovation

It is widely acknowledged that scientific advances and technological change are important drivers of economic performance in any country. The science and innovation sector should realize that the ability to create, distribute and exploit knowledge is a major source of competitive advantage, wealth creation and improvements in the quality-of-life. However, if the Sri Lankan government wants to obtain the benefits from this transformation it will have to put the right policies in place.

Limits on public spending where duplicates and unnecessary spending occur, increased competition and globalization, changes in the drivers of the innovation process, and a better understanding of the role played by science and technology in economic performance and societal change, have led governments to sharpen their policy tools.

In this context, the Ministry must become a facilitator, enabling business and consumers to adapt to the demands and opportunities of the new economy.

Recommendations for the sector are summarised in Table 1.

1.5 Summary of recommendations

Table 1 summarises the recommendations of the Committee proposed in this report; the following colour-coding is used to delineate they types of activities proposed:

Legend
Reorganization/ restructuring
Cost reduction
Create enabling environment
Operational changes
Strategic changes
Demand side measures

Table 1: Summary of recommendations of the Committee

Sector	Type of activity	Recommendation	Reference page number
Education sector (overall)	Strategic changes	Adopt a coherent procedure for developing vision, mission and value statements with broad participation, as well as ensuring KPIs consistent with SDGs that Sri Lanka has committed to and with national policy are adopted by all institutions under it.	Page 12
General education sector	Operational changes	1. Prioritise execution of existing strategic plan of Department of Examinations	Page 30
	Reorganization/ restructuring	2. Reposition national schools under the provincial departments of education.	
	Reorganization/ restructuring	3. Reduce the number of schools with less than 100 students and optimise resource utilization	
	Reorganization/ restructuring	4. Revisit scope of Department of Educational Publications for improvements in efficiency.	
	Cost reduction / Demand side measures	5. Explore options to reduce the costs of publication of educational material and issuance of uniforms, including means-tested support for those deemed in need	
	Reorganization/ restructuring	6. Integrate National Education Commission with the Ministry of Education and prioritization of policy formulation	Page 31
	Reorganization/ restructuring	7. Shift non-core activities such as engineering work, administration of 'national' schools, to Provincial Departments of Education	
	Demand side measures	8. Target facilities such as free textbooks and uniforms at families identified as multi-dimensionally poor under Aswesuma programme	
	Operational changes	9. Introduce non-academic soft-skills programs at school level to provide A-level students with broader exposure before they enter higher education or employment. Examples of such programs include the Duke of Edinburgh's International Award.	
Higher education sector	Cost reduction	1. Maintain 2023 levels of expenditure on establishment activities, except for essential services; these changes can result in savings of approximately LKR1.4 billion	Page 32
	Cost reduction	2. Cap increments on development activities at 10%; these changes can result in savings of approximately LKR1.01 billion	

	Operational changes	Strategic changes	3. Strengthen universities with an outward-facing approach to retain and upgrade skills and relevance, particularly through international network building, skills acquisition and building digital capabilities.	Page 32
	Operational changes	Strategic changes	4. Promote inter-faculty teaching in universities bringing together liberal arts with technological sciences to improve the entrepreneurship and employable prospects of the students	
	Operational changes		5. Adopt a shared-service approach within universities for cost efficiencies, built in line with corporate shared services leading practices, can be designed to support the substantial volume of administrative work and transactional processing.	
	Operational changes		6. Increase the internationalization of graduate education and research for example through international research collaborations to improve quality as well as through recruitment of international students to contribute to institutional income	Page 33
	Strategic changes		7. Strengthen links between universities and the private sector, accelerate existing collaborations in order to encourage product development, generate industrial income and improve employability of undergraduates.	
	Create enabling environment		8. Enhance support the private sector in the provision of services through an enabling environment, establish registration and quality assurance procedures	
	Create enabling environment		9. Facilitate funding of commercially relevant research to promote spin-offs	
	Operational changes		10. Implement procedure outlined in paragraph 17 of the 2023 Budget Speech with regards to all new projects and programs to ensure financial, economic and technical feasibility of all new projects and programs, starting from the proposed medical faculty at the Uva-Wellassa University.	
	Reorganization/ restructuring		11. Re-organize institutions under Ministry of Education, including reform and restructure of UGC to separate functions of standard setting and quality assurance (ideally via a freestanding entity or unit) from fund management	Page 34
	Cost reduction		12. Prioritize current capital projects based on their stage of completion and their potential to stimulate economic growth; new projects should be only considered based on feasibility studies and related procedures set out in paragraph 17 of the 2023 Budget Speech.	
	Cost reduction		13. Conduct a study on international best practices for a tertiary education (HE and TVET) funding scheme to provide subsidised loans to cover some of the costs of providing publicly funded tertiary education, especially for high-employability and earning capacity courses (e.g., medicine, and courses offered at CGTTI)	Page 35, Annex 2
	Strategic changes		14. Conduct a study of international best practices in university selection process (with necessary safeguards and precautions to ensure vulnerable groups are not excluded), with an aim to increase autonomy in selection process, in order to increase competition among universities with an aim to improve quality of HE, but also to encourage a more all-round approach among students, rather than an exam-centric approach.	Page 35

	Operational changes	15. Streamlining of grant funding through Research Management Units (RMUs) in universities to facilitate receipt of grants for research and other academic collaborations with an aim to improve quality of education and share academic knowledge and expertise beyond the Sri Lankan university ecosystem.	Page 36
Skills Development and Vocational Education sector	Cost reduction	1. Review Capex in the TVET sector to minimize expenditure, linking it with productivity and efficiency growth in the sector; review non-salary component of opex to minimise costs.	Page 37
	Cost reduction	2. Reduce 2023 budgetary estimates for the sector by 10 % (both recurrent and capital expenditure; these changes can lead to savings of LKR 1.2 billion.	
	Cost reduction	3. Merge VTA and NAITA to reduce duplication and wastage.	
	Operational changes	4. Improving the quality of training through the establishment of a labour market monitoring system to align programs to market needs, setting clear and appropriate targets and offering practical learning opportunities.	Page 37, Annex 5
	Operational changes	5. Strengthen quality of course offerings and employability of students through accreditation partnerships, as well as collaboration with the private sector (international and local)	
	Operational change	6. Encourage the provision of services through TVET centres to generate additional revenue and internship opportunities, as well as strengthen reputation for high quality training, access broader customer bases and knowledge transfer.	Page 38, Annex 5
	Strategic changes	7. Adopt a PPP model to amplify the impact of key recommendations to foster innovation, resource-sharing, and sustainable funding to ensure the success of the proposed training, accreditation, and service initiatives	Page 38
	Cost reduction	8. Prioritize current capital projects based on their stage of completion and their potential to stimulate economic growth; new projects should be only considered based on feasibility studies and related procedures set out in paragraph 17 of the 2023 Budget Speech.	
	Cost reduction	9. Conduct a study on international best practices for a tertiary education (HE and TVET) funding scheme to provide subsidised loans to cover some of the costs of providing publicly funded tertiary education, especially for high-employability and earning capacity courses (e.g., medicine, and courses offered at CGTTI)	Page 39, Annex 2
Science and Innovation sector	Reorganization/ restructuring / Cost reduction	1. Reassign programmes to more relevant institutions for cost efficiencies, for example reassignment of the Planetarium to ACCIMT; soil degradation improvement to NIFS or the Department of Agriculture; such changes can lead to savings of LKR101 million.	Page 40
	Cost reduction	2. Reduce non-salary recurrent expenditure by 2.5%; this can lead to a savings of LKR26.5 million	
	Create enabling environment	3. Reduce barriers to spin-off formation from universities and other research institutions; these, are a vital component of innovation networks and can play an increasingly valuable role.	
	Create enabling environment	4. Reduce barriers to mobility of scientists to improve innovation, particularly in terms of public employment	

		legislation, rules on temporary mobility and secondary employment and regulations on academic entrepreneurship.	
	Create enabling environment	5. Improve the interaction between science and industry to improve the technological absorption capacity of the business sector, as well as to avoid duplication of R&D and to make science more responsive to business needs.	Page 40
	Create enabling environment	6. Introduce appropriate measures to strengthen competition, facilitate networking and co-operation, strengthen links between science and industry and increase returns to investment in R&D	
	Create enabling environment	7. Increasing competition in technology sectors to encourage firms to invest in innovation and in efficiency-enhancing technology and drive down the cost of technology.	Page 41

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List of abbreviations

ACCIMT	Arthur C. Clarke Institute for Modern Technologies
Capex	Capital expenditure
CGTTI	Ceylon German Technical Training Institute
DEP	Department of Educational Publications
GCE	General Certificate of Education
GE	General education
HE	Higher Education
HIES	Household Income and Expenditure Survey
KPI	Key performance indicator
LKR	Sri Lanka rupee
MIS	Management Information System
NEC	National Education Commission
NERDC	National Engineering Research and Development Centre
NIA	National Innovation Agency
NIE	National Institute of Education
NIFS	National Institute of Fundamental Studies
NRC	National Research Council
NSF	National Science Foundation
NSTC	National Science and Technology Commission
OECD	Organisation for Economic Co-operation and Development
Opex	Operational expenditure
PGIM	Post Graduate Institute of Medicine
PPP	Purchasing power parity.
R&D	Research and development
RMU	Research Management Unit
SDG	Sustainable Development Goal
SEC	Socio-economic classification
SLIC	Sri Lanka Inventors Commission
SLINTEC	Sri Lanka Institute of Nanotechnology
SLIBTEC	Sri Lanka Institute of Biotechnology
SPC	State Printing Corporation
TVEC	Tertiary and Vocational Education Commission
TVET	Technical and Vocational Education and Training
UCMF	University of Colombo Medical Faculty
UGC	University Grants Commission
USD	United States dollar
VET	Vocational education and training
VTA	Vocational Training Authority
WBB	Welfare Benefits Board

2.0Introduction

This report is based on the findings of the Public Expenditure Review Committee for the Education Sector. The mandate of this committee is to identify actions that can contribute to the rationalization of government expenditure in the Education Sector in Sri Lanka through a review of budgetary allocations and a zero-based budgeting approach, in order to strengthen the country's economic recovery.

The Committee was constituted by the following:

- Mr. A.K.D.D.D. Arandara, Additional Director General, Department of Legal Affairs (Chairman)
- Mr. M N Ranasinghe, Secretary, Ministry of Education (Member)
- Prof. Rohan Samarajiva, Chairman, LIRNEasia (Member)
- Dr. Harsha Alles, Chairman, Gateway Group (Member)
- Senior Prof. Lakshman Dissanayake, Emeritus Professor, Former Vice Chancellor, University of Colombo (Member)
- Menaka Rajaguru, Director, Department of National Budget (Convener)

The report is based on a review of the 2023 budget estimates of the Ministry of Education, as well as consultative meetings with relevant authorities and officers. This report focuses on four key sub-sectors within the education sector, namely: general education; higher education; skills development and vocational education; and science and innovation. Each sector plays a crucial role in a country's ability to ensure sustained long-term growth and prosperity.

In 2023, the education sector was allocated 12% of the total budget. Of the recurrent allocation (89.23%), General Education (GE) receives the largest share of 83.33%, while Higher Education (HE) receives 14.17%, and Technical and Vocational Education and Training (TVET) receives only 2.5%. If recalculated in terms of per-student expenditures, HE absorbs most of the resources, contrary to good practices, as shown in Annex 1. HE is the largest beneficiary of capital investment, being allocated 52.57% of the total, even in rupee terms. It is disproportionately high in terms of per-student expenditures.

2.1 Note on identification of key performance indicators (KPIs)

While the terms of reference of the Committee included the identification of KPIs for the Sector, a comprehensive response is unrealistic in the context of the time and resources allocated. When the various entities grouped within subsectors (e.g., tertiary education, general education) and within clusters (e.g., all state universities under UGC, TVET institutions under TVEC) and are mandated to come up with vision/mission statements etc. that are consistent with the clusters and subsectors they belong to, ideally, they should be tasked with proposing KPIs. An external committee can review these proposed KPIs and adopt them. KPIs that are adopted without the participation of those whose responsibility it is to achieve them are unlikely to be efficacious. This being said, illustrative KPIs would be on the lines of:

- "The proportion of children and young people (a) in Grades 2/3; (b) at the end of primary; and (c) at the end of lower secondary achieving at least a minimum proficiency level in (i) reading; and (ii) mathematics, by sex."[2]
    - This is taken directly from the SDG commitments Sri Lanka has made and will address the key problem of shortfalls in literacy and numeracy at Year 3, described in greater detail in Annex 1.
- Reductions in absenteeism and students dropping out from school to, levels prior to the pandemic.[3]

2.1.1 Recommendation on KPI development

It is recommended that a coherent procedure for developing vision, mission and value statements with broad participation be adopted. An essential precondition is a stable assignment of institutions under the Ministry of Education, without periodically separating HE, TVET and General Education based on considerations external to the optimal administration of education. The Ministry should ensure that KPIs consistent with SDGs that Sri Lanka has committed to and with national policy are adopted by all institutions under it.

[2] https://sdg-tracker.org/quality-education
[3] https://www.themorning.lk/articles/UcmX3NmjszQkEo3nJcjp

3.0Review

This section reports on the Committee's findings relating to the four main sub-sectors of the Education sector. It reports on some of the key challenges that have come to light and is based on detailed reviews of the budget as well as consultations with various stakeholders. These findings form the basis for the recommendations of the Committee, which are alluded to in this section, but are explained in further detail in Section 4.0.

3.1 Review of the General Education sector

The general education (GE) sector consumed 83.3 % of the recurrent budget of the entire education sector in the 2023 estimates. Of this, over 60% went to salaries in most years. It was less in the 2023 estimates because of the more than 10-fold increase in expenditures for textbooks in 2023. It is concerning that the expenditures on nutrition including milk in 2020-23 are around 50% of what they were in 2018-19.

Despite consuming 83.33% of the recurrent budget, the general education subsector is in crisis as indicated by the following (these are simply indicative; but they will suffice to support the claim of a serious problem):

- The latest report of a 10,000-sample survey of Grade 3 students shows that only 7% have achieved the expected levels of literacy and numeracy.[4] This is a good indicator of the low value for money from public investment in general education because performance in higher grades is affected by tuition services obtained by parents. The pandemic and the prolonged school closures may be assigned some responsibility for the low performance, but it is unlikely that this is the sole cause. Without the results of a similar pre-pandemic survey, it is not possible to separate out the pandemic effects.
- Contrary to the claim that the State offers free education, on average, a family spent LKR 2,401 on education every month, according to the 2019 HIES. This was 5.9 % of total non-food expenses, higher than the 5.1% spent on fuel and lighting,[5] where the state makes no claim of "free supply." The proportion spent by families in the sixth, seventh, and eighth deciles was 6.7, 6.9, and 6.8% of their non-food expenditures respectively. In the eighth decile education spending amounted to LKR 3,175 a month.
- Given the reports of children dropping out of school, fainting in school, etc., it appears necessary to reallocate resources from unproductive activities to addressing the consequences of the pandemic and the economic crisis. A recent survey showed that 203,000 children had not been sent to school for at least one day in the past 30 days by reason of the economic crisis (see Annex 3). An emergency, short-term program to address these problems should be initiated forthwith.

It must be emphasized that business as usual is no longer an option. We must get more and better educational outcomes for the public funds that are expended on general education. The

[4] https://www.themorning.lk/articles/UcmX3NmjszQkEo3nJcjp
[5] 2019 HIES Final Report (http://www.statistics.gov.lk/Resource/en/IncomeAndExpenditure/HouseholdIncomeandExpenditureSurvey2019FinalResults.pdf)

required actions in the short and medium term are described in this report (see Section 4.0). A refocusing on priorities within general education is essential, but increased per-capita spending will be required in the medium term.

The Educational Publications Department, with 291 employees, lacks a clear rationale. Its scope and functions need to be re-examined for greater efficiency, perhaps even handed over the Ministry. The cost of printing textbooks has increased from LKR 2.4 billion to 30 billion (more than ten times) in one year. Less costly printing options can be explored, as well as other options to gain cost efficiencies It has been reported that considerable savings (even up to 50 %) may be realized by contracting out the printing of textbooks to Indian printers, rather than importing ink, paper, etc. from India and having the books printed in Sri Lanka. This merits further investigation.

PPP options can be explored for products such as teacher guides for which there appears to be demand.

With the shift to workbooks where no reuse is possible, costs will further escalate. It may be necessary to resuscitate the plan to issue tablet computers, though the initial and recurrent costs will have to be carefully assessed in light of current financial exigencies.

The Chairman of the Welfare Benefits Board (WBB) stated that discussions had taken place on the possible use of the WBB registry for the issuance of free textbooks and uniforms. This indicates an openness to introducing means testing for free items given by state schools and can reduce the cost of issuing uniforms to students.

It has been reported that considerable savings (even up to 50%) may be realized by contracting out the printing of textbooks to Indian printers, rather than importing ink, paper, etc. from India and having the books printed in Sri Lanka. This merits further investigation.

Policy formulation through the National Education Commission (NEC) should be prioritized; the NEC should be closely integrated with the Ministry of Education and implementation, giving priority to the following:

- Development of standards, which would be done in close coordination with NIE.
- Assessment of learning outcomes, which would require a central role to be given to the Department of Examinations, which should undergo a major reform regarding the number and content of the national examinations it conducts, which have ceased to be about relevant and important learning outcomes.

Policy formulation through the National Education Commission in this manner is an implementable proposal in the current configuration of the Ministry of Education. However, if higher education and vocational education are assigned to different ministries, there may be concerns. It is proposed that the NEC focus its efforts on GE, with HE and TVET sectors being addressed to the extent necessary for the advancement of GE. In any case, UGC (ideally reconfigured) and TVEC are there to provide policy guidance to the Minister(s) responsible.

The 13th Amendment clearly assigns primary responsibility for education and educational services to the Provincial Councils (Ninth Schedule of the Constitution), with exceptions set out in an Appendix. The practice prior to 1987 was for decentralized administration of schools, with a small Ministry. The abuse of the "National Schools" exception over the past few decades has resulted in a distortion of the intent of the 13th Amendment and wastage caused by efforts to administer all "popular" schools from distant Colombo. Even now it is reported that much of the administration of the national schools is done by the Provincial departments. The Central Ministry (together with the National Education Commission) should limit itself to standard setting and monitoring. The current national schools may be renamed as flagship or exemplary schools, with their purpose being redefined as that of improving the quality of education of all schools through example.

If all "national schools" are positioned under the provincial departments of education and non-core activities such as civil works are also devolved, it is likely that the massive number of employees currently attached to the Ministry of Education (65,323) will be greatly reduced. It is not that these employees will lose their positions but that they will be doing different tasks in different organizations. Given the teacher vacancies that are being filled currently, some of these education-service employees can go back to teaching.

Non-core activities such as those involving engineering works, administration of "national" schools, etc. should be handed over to Provincial Departments of Education. A number of civil works projects are undertaken by the Ministry, including those for schools under Provincial jurisdiction (e.g., upgrading plantation schools). These activities should be done by those closer to the schools (Provincial Departments of Education) and not by officials in distant Colombo. The fact that some of the funds were obtained through foreign aid is not an adequate justification.

3.2 Review of the Higher Education sector

The review of the higher education sector[6] revealed some of the challenges that the higher education sector is faced with. The heavy emphasis on undergraduate education has led to a lack of improvement of post-graduate teaching and research over time.[7] Despite this, an effective and regular method for evaluation of undergraduate academic programmes is lacking. To accommodate the increasing numbers of undergraduates, physical infrastructure development appears to have been a central priority. Research and development are weak in certain universities. Overall, a 'whole institution' approach has been lacking, where all components of the university community, including external stakeholders, are involved in the endeavours;[8] links between universities and industry/private sector, as well as the internationalization of state universities have been weak. The entrepreneurial character is

[6] This was by no means a comprehensive review, due to limited time and resources, however, there is merit in bringing to these challenges to the forefront of this discussion.
[7] In the latest THE Asia University Rankings, only one university from Sri Lanka included in Top 200, University of Peradeniya in 119th place. https://www.timeshighereducation.com/world-university-rankings/asia-university-rankings-2023-results-announced
[8] https://campaignforeducation.org/en/key-frameworks/sdg-4-and-targets?gclid=Cj0KCQjw-pCVBhCFARIsAGMxhAdBM4JA2kjUGwvE7ZNJ-lpg5JlTm4YlEBaBMJqGwv9XJqC2rsFqfZYaAiikEALw_wcB

markedly absent in Sri Lankan universities. A further challenge is the considerable outflow of Sri Lankan graduates abroad for employment, particular graduates of the local medical faculties and Ceylon German Technical Training Institute (CGTTI), posing a serious challenge in terms of lack of 'return on investment' for the country in provision of higher education, particularly in high-cost segments such as medicine,[9] particularly when further capital expenditures are planned for the coming years (See Annex 2).[10]

On the basis of the documents on Public Expenditure on Higher Education, the Committee attempted to revise the 2023 budgetary estimates in a more rational way without trying to damage the current status of the higher education sector. It was assumed that the level of expenditure should not be reduced below the 2022 level and adjusted accordingly. However, for some establishment services, no change was made as they are regarded as essentials. These changes are made in Table 2. This table shows that we have made a very reasonable revision and thus the government can save about LKR 1.4 billion.

Table 2: Proposed revisions to the Budget on Administration and Establishment Services (Higher Education)

Item	2021 (LKR millions)	2022 (LKR millions)	2023 (LKR millions)	Comments	Savings from Adjustments (LKR millions)
Scholarship Education Programmes with other countries	6	5	10	Check the status of this and adjust accordingly. Remain at 2022 level	5
Loan Scheme for the students who are unable to get into the State Universities	386	397	1,029	No change is recommended.	0
Interest subsidy for providing Laptop computers for university students	10	10	10	No change is recommended.	0
12 storied building for the Faculty of Medicine, University of Ruhuna	143	150	50	No change is recommended.	0
Establishment of a Medical Faculty at Sabaragamuwa University	408	250	300	Check status of this and	50

[9] Second only in cost of provision, to dental education.
[10] For example, the 2023 budget speech included a proposal for new medical faculty, with an allocation of LKR 200 million.

				remain at 2022 level	
Establishment of a Professorial Unit at Karapitiya Hospital	343	155	200	Check status of this and remain at 2022 level	45
Establishment of a Center for Naval Studies and Shipping at University of Ruhuna	125	65	560	Check status of this and remain at 2022 level	65
Development of Allied Health Science at the Ruhuna University and Laboratory facilities for Medical Faculty, Sri Jayawardenapura University	532	350	450	Check the status of this and remain at 2022 level	100
Local Bank Loan obtained to establish 17 stories building, Faculty of Medicine, University of Colombo	177	350	1,400	Check the status of this and remain at 2022 level	1,050
Review, Accreditation and Quality Assurance of the Non-State Higher Education Institutes	0	0	35	No change is recommended	0
Enhance Local Postgraduate Education Opportunities for Doctors	0	0	60	Check the state of this and adjust to 30 million (50% of 2022)	30
Implementation of Quality Assurance and Accreditation Bill	0	0	100	Check the status of this and adjust to 25 million 25 % as the initial year)	75
Other	159	221	227	Remain at 2022 level	6
Total Savings					1,426

Secondly, a careful examination was made of the budgetary requirements and thus the public expenditure on higher education, allocated especially for development activities as shown in Table 3. The Committee found that some of the 2023 estimates have increased more than 10% from the 2022 expenditure level. By considering the difficult situation that the country is experiencing today with its current economic crisis, the increments of those activities which

went beyond 10% change, were adjusted down to 10%. It is assumed that this will guarantee that no damage will be done to such activities, instead continuation is assured. If we adjust the 2023 budgetary estimates in this way, we will be able to save approximately LKR1.01 billion.

It is to be noted that certain requirements for buildings and facilities appear to have been left out. For example, the new Medical Faculty at University of Moratuwa is about to admit the third intake. Buildings to accommodate the increasing numbers of students and the facilities at the proposed teaching hospital are inadequate. Funds have not been allocated in the 2023 estimates. A possible solution is outlined in Annex 4. Also, to be noted is that funds have not been allocated for the proposed new Medical Faculty at the Uva-Wellassa University.

Table 3: Proposed revisions to the Budget on Development Activities

Institution/Item	**2021 (LKR millions)**	**2022 (LKR millions)**	**2023 (LKR millions)**	**Positive % change 2022-2023**	**After adjusting to 10% change for those increased more than 10%**	**Savings from the Revision (LKR millions)**
University Grants Commission	893	882	908	2.9		
University of Peradeniya	8,027	8,430	8,500	0.8		
University of Colombo	5,104	5,195	5,657	8.9		
University of Sri Jayewardenepura	6,195	6,325	6,865	8.5		
University of Kelaniya	4,248	4,735	5,058	6.8		
University of Moratuwa	3,560	3,710	3,980	7.3		
University of Jaffna	4,328	3,989	4,282	7.3		
University of Ruhuna	4,666	4,696	4,933	5.0		
Open University of Sri Lanka	2,355	2,499	2,605	4.2		
Eastern University of Sri Lanka	1,659	1,840	2,090	13.6	2,024	66
South-Eastern University of Sri Lanka	1,718	1,792	2,050	14.4	1,971	79
Rajarata University of Sri Lanka	2,306	2,380	2,752	15.6	2,618	134
Sabaragamuwa University of Sri Lanka	2,515	2,370	2,762	16.5	2,607	155
Wayamba University of Sri Lanka	1,782	1,875	2,242	19.6	2,063	180

Uva-Wellassa University of Sri Lanka	1,310	1,370	1,672	22.0	1,507	165
University of the Visual and Performing Arts	1,313	1,320	1,483	12.3	1,452	31
Trincomalee Campus	581	527	673	27.7	580	93
Other Post-graduate Institutes	442	412	255			
Other Higher Educational Institutes	2,819	2,500	2,533	1.3		
Postgraduate Institute of Medicine	151	142	0			
Establishment of Technology Faculties of the Universities	800	1,150	875			
Payment of Mahapola Bursary	2,000	1,825	1,725			
Gampaha Wickramarachchi University of Indigenous Medicine	0	700	779	11.3	770	9
University of Vavuniya	0	645	872	35.2	710	163
Establishment of Colombo North Center for Liver Diseases, University of Kelaniya	0	70	100	42.9	77	23
Total	58,772	61,379	65,651	7.0		1,097

3.3 Review of the Skills Development and Vocational Education sector

The skills development and vocational education sector can play an important role in fostering a skilled workforce, and contribute to the nation's economic growth and prosperity. The following observations have been made about the skills development and vocational educational sector (also referred to as the TVET [technical and vocational education and training] sector)[11] by the Committee.

[11] This was by no means a comprehensive review, due to limited time and resources, however, there is merit in bringing to these observations to the forefront of this discussion.

This sector only receives 2.5% of the total budgetary allocation for the education sector, despite its considerable potential to contribute to an export-led economy.

The first objective of the TVET sector is to develop a mechanism of labour market monitoring mechanism and then create or refine the training programmes accordingly. However, this aspect has never been realized but their programmes are still based on assumptions rather than evidenced-based scientific analysis. It has been reported earlier that about 28% of the unemployed having TVET training reveals skills-jobs mismatches and shortage of talent for promoting innovation and creativity as reason for unemployment.[12] It is not quite clear even whether this sector has been aware of the analysis conducted by the Department of Labour in 2022 and published as a book "Outlook on Labour Needs of the Private Sector"[13] by conducting a need survey as well as analysing Labour Force Survey data drawn from the Department of Census and Statistics. However, this analysis also has not looked at whether there is a mismatch between the programmes available in this sector with the jobs offered in the industry sector. In addition, it is quite essential to forecast employment opportunities which will be available at least in every five years' time.[14] For example, such an analysis should include 'how many jobs will vanish in the next 5 years?; How many new jobs will be created every year?'

One of the major issues in the TVET sector is the lack of time-defined education targets. None of the participants that were consulted[15] made mention of their strategic plans and whether their business models have been created with time-defined targets. These should be national level targets by identifying educational attainment of its general population. TVET systems in Sri Lanka are shown in Figure 1. It is quite clear that the TVET system has been structured well in the country. However, well-defined targets are lacking.

[12] https://www.adb.org/sites/default/files/publication/176571/tvet-hrd-south-asia-sri-lanka.pdf

[13] https://labourdept.gov.lk/images/PDF_upload/statistics/outlook%20on%20requirements%20of%20labour%20demand%202022.pdf

[14] Dissanayake, Lakshman and M. Weeratunga (2017) Changing Nature of the Labour Force in Sri Lanka: Predicting Occupational Structures of Major Industry Groups, International Journal of Advanced Research and Review, 3(2): 16-26

[15] Convenings of stakeholders were organized by the Ministry of Finance.

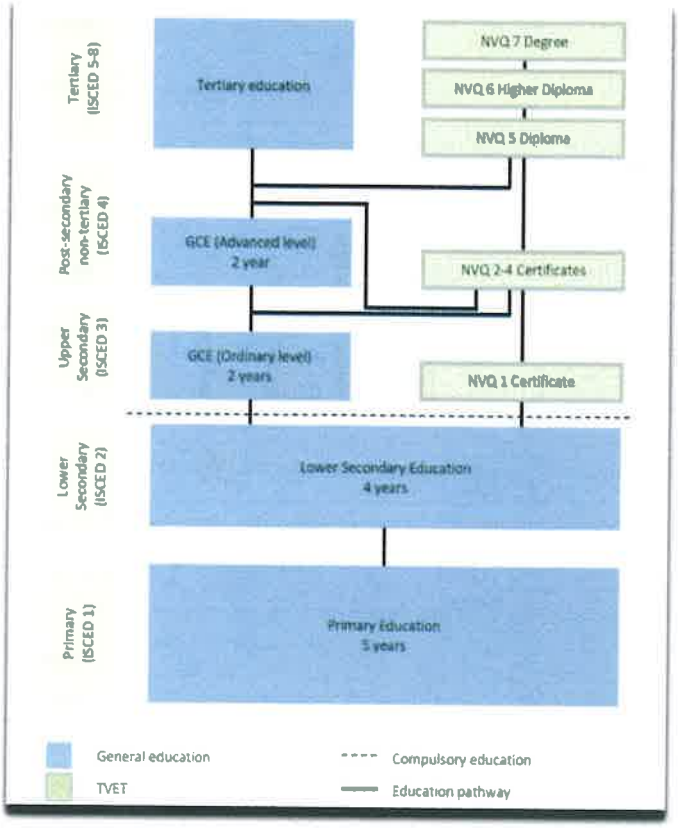

Figure 1: TVET Systems in Sri Lanka

Source: http s://unevoc.unesco.org/wtdb/worldtvetdatabase_lka_en.pdf

3.3.1 Public financing

As Sri Lanka is currently experiencing its worst economic crisis, there is a great necessity to restructure its public financing as where necessary as one of the ways to cut down the government expenditure. Figure 2 shows that investment in skills sector, there was a stability in investment during the 2020-2022 period but despite the economic crisis, it has grown by 34.7% from 2022 to 2023. This was mainly due to the increase in capital expenditure (59%). However, recurrent expenditure also has grown by 27.1% during this period. When looking at the investment in Department of Technical Education Training, Figure 3 reveals that again, total expenditure has grown significantly from 2022 to 2023. Again, it was mainly due to capital expenditure (250.6%). Recurrent expenditure has grown by 7.6% from 2022 to 2023. This suggests that there should be more control on Capex[16] than Opex.[17]

[16] Capital expenditures (Capex) are funds used to acquire/construct, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment.
[17] Operating expenses (Opex) include rent, equipment, inventory costs, marketing, payroll, insurance, and funds allocated for research and development.

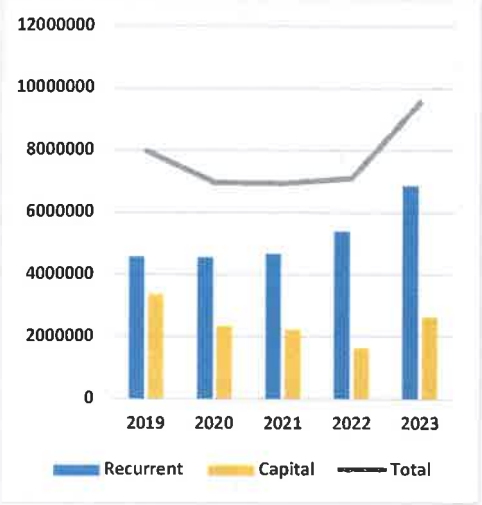

Figure 2: Investment on Skills Sector (LKR 00''), 2019 to 2023
Source: Ministry of Education

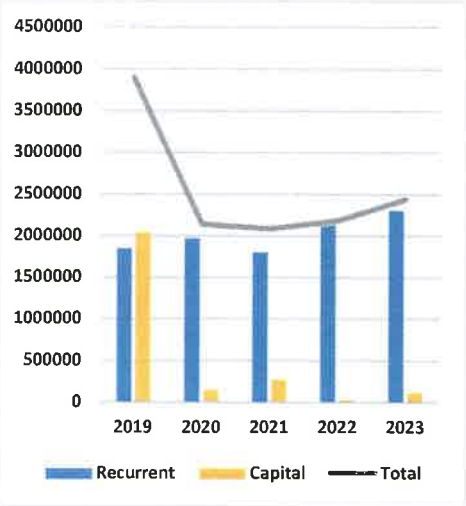

Figure 3: Investment on Department of Technical Education Training (LKR 00''), 2019-2023
Source: Ministry of Education

When the percentage change of the treasury funding is examined, it was found as shown in Figure 4 that Tertiary and Vocational Education Commission has incurred the most costs in both periods. Overall, the percentage increase in treasury funding during the 2022-2023 period has varied between 23.7 % (Vocational Training Authority) and 50.4 % (Tertiary and Vocational Education Commission).

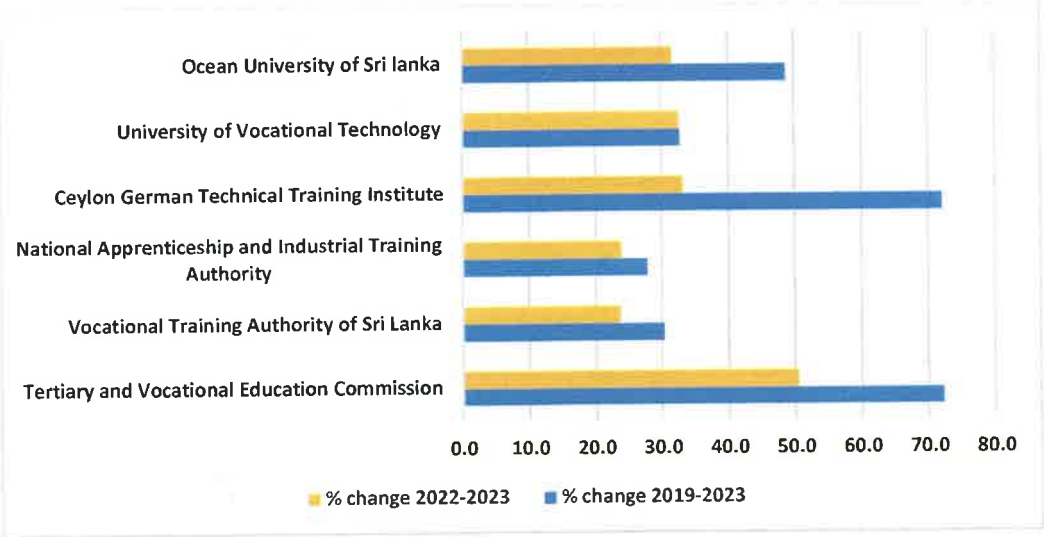

Figure 4: Percentage change of the Treasury Funding, 2019-2023 and 2022-2023
Source: Ministry of Education

After investigation of government spending on this sector, it appears safer to request the Ministry to reduce their 2023 budgetary estimates by 10% (both recurrent and capital expenditure) which may not damage their current operations for the year 2023. In total, it will save LKR 1.2 billion for the government. This approach can be regarded as a temporary measure but National Planning Department together with the National Budget must implement a strategy to measure the productivity of the sector.

Productivity measures are beneficial to assess the performance and efficiency of resource use. For this it necessary to compile multifactor productivity estimates the education sector including TVET sector. It is clear that the education sector has a large portion of output provided at prices that are not economically viable. That is, goods and services are provided at prices below the cost of provision, including all state sector higher education and TVET sectors. Given the importance of education sector to the Sri Lankan economy, it is necessary for the government to address this gap in productivity statistics. The Department of Census and Statistics can undertake this task with expert advice. If these productivity measures are developed, then the government can find how this sector's productivity grew annually, and what is the difference with the growth in market sector industries. We will also be able to find how multifactor productivity grows on average per annum, with increased use of intermediate inputs (per hours worked) contributing to annual growth in labour productivity. Multifactor productivity[18] can be calculated as the ratio of output growth (in volume terms) to growth of a combined input volume measure of labour, capital, and intermediate inputs (i.e., goods and services consumed in production). The output measure can be based on an output index which can be developed for the higher education and TVET sectors. In this

[18] This type of index has been calculated by the Australian Bureau of Statistics

context, the issue of indexing future funding is particularly pertinent even in the absence of a financial crisis.

3.3.2 Relevance of TVET education and revenue generation

The TVET sector currently does not have any interest in generating at least some portion of its revenue, though this sector has tremendous potential. This may be due to the fact that they have always been dependent on treasury money and most importantly, due to the lack of entrepreneurship. These institutions have been content operating in this manner and never expected an economic crisis like that which the country is experiencing now. Even in the discussions with sector stakeholders,[19] it was observed that these stakeholders are still of the opinion that the government should provide necessary funds and it is the right of the people in this country to receive education funded by the government. If the TVET sector is to be developed, the mindset and culture of these organizations must be changed.

It was mentioned by the TVET sector officials that social demand for its courses is higher than industrial demand. They were also of the opinion that they have a full-fledged career guidance programme. However, they have not understood their career guidance programme is not very efficient and effective to attract students to fulfil the industrial demand. It also quite doubtful whether these institutes have an accurate idea about the industrial demand for their courses. It has already been noted that current skills development programmes are not well integrated with national development priorities.[20] It appears that the planning process does not regularly discover national and regional demand based on labour market information[21]. Furthermore, the educational system in the TVET system does not teach the skills needed by the labour market or poor-quality education and training resulting to job-skills mismatch[22]. In this context, it is very important to make a substantial effort to convert TVET courses into competency-based training. Furthermore, if the economy is to be transformed into one that gives primacy to high-value export of goods and services, the middle layer of technology managers will become more important, whether their credentials are described as degrees or diplomas. Strengthening course offerings which can serve these sectors would serve to boost these industries.

Sri Lanka's Vocational Education and Training must be built on a partnership between government and industry to provide practical, cost-effective courses. This aspect is lacking now and hence, these institutes should make a significant effort to establish such partnerships. It is expected that Vocational Education and Training qualification provides an efficient, cost-effective pathway to employment by providing 'applied' (or practical) learning opportunities. Such qualification also must provide a pathway to further studies, including higher education

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[19] Convenings of stakeholders were organized by the Ministry of Finance.
[20] https://unevoc.unesco.org/wtdb/worldtvetdatabase_lka_en.pdf
[21] ADB has done work to explore data analytics using online job portal data to provide a near-real-time assessment of skills demands in the labor market in the Asian region (see for example: https://www.adb.org/sites/default/files/publication/606711/covid-19-impact-job-postings-bangladesh-sri-lanka.pdf); LIRNEasia has more recently worked with ADB to extend this work to Sri Lanka; results have not been published but information however ADB or LIRNEasia may be contacted for further information.
[22] https://www.adb.org/sites/default/files/publication/176571/tvet-hrd-south-asia-sri-lanka.pdf

degrees. Although this aspect is being covered, by the University of Vocational Technology and Ocean University, a complete assessment of their programme outcomes must be carried out without further delay. This sector also must be built on partnership between government and industry, with curriculum development directly informed by expert industry councils and representatives]to ensure students are work-ready with the latest industry knowledge and skills. TVET courses need to incorporate a period of on-site learning, either in a simulated workplace environment, an actual industry workplace, or both. Establishment of strong industry partnerships will provide a unique opportunity for students gain practical experiences in the industry as well as the institutes to generate a substantial proportion of industrial funding by providing trainees to workforce in the industry as well as function as industrial incubators. However, this partnership should not be limited to this but together they will be able create different business models which can benefit both the industry and the institutes.

Sector stakeholder representatives that were consulted were reluctant to charge fees from their students; this is based on the assumption that the majority of their students are drawn from low-income strata. In order to maintain the equity in TVET education, it was claimed that tuition fee-free education has to be provided. However, it is not clear whether they have made any assessment that what portion of their students come from this low-income category. This is something that can be explored Therefore, it is suggested here that a proper evaluation to be carried out in order to find the income-level of the parents of the students to determine their income status and then devise an appropriate strategy to look for fee-paying nature of the programmes.

3.3.3 Monitoring and evaluation mechanism

It is not clear that all the institutes in this sector have developed a well-administered Management Information System (MIS). The assessment of organizational and management effectiveness must be carried out quarterly basis in order to improve the efficiency and productivity of the sector, but this cannot be done effectively because of inappropriate strategic planning, performance monitoring, and a lack of an effective MIS. The discussion with sector officials revealed that financing, and internal efficiency varied across training institutions operating in different sectors. Therefore, an updated and reliable database system on operating costs and financing of TVET sector activities is essential to inform effective development planning and sound investment programming. Furthermore, it is highly recommended that budgetary allocations to these institutions need to be made on quarterly basis depending on their performance, especially in this present economic crisis.

3.4 Review of the Science and Innovation sector

The following observations have been made about the science and innovation sector[23] by the Committee.

First, it was observed that multiple institutions are functioning in the field of science and technology in Sri Lanka, with duplication of work, and often poor, or no coordination among organisations. Some of these institutions may be merged without harming their purpose of establishment. Administration cost of the sector is high. Most institutions do not have a proper mechanism to generate their own revenue to further their own development. It appears that often these institutes would prefer to be heavily dependent on the state budget, thus little initiative has been taken to generate revenue independently, despite great potential for revenue generation. A further challenge is that the country's science and innovation priorities have not been systematically identified by relating how science and innovation can be fed into a creative economy which will lead to significant economic growth. Most of the institutes are unable to the show a return on investment in their respective fields, which means no proper evaluation procedure has been established to understand the success of the programmes carried out in relation to the outcomes.

3.4.1 Analysis of Ministry expenditure

According to the breakdown of the expenditure by the Ministry and respective institutes, 13% of the expenditure is incurred by the Ministry; most of this expenditure goes toward its administration and establishment activities (58.3%). Another important point to be made here is that apart from this administrative and establishment cost, the Ministry is taking the responsibility to carry out some components that other institutes should be working on such as "Scientific Development Programme, Improving Degraded Soil, Prototype Manufacturing of Solar Panels, and Implementation of R and D Development Framework" (Table 4).

With these corrections, the Ministry's administrative and establishment expenditures can be significantly reduced, with those funds and personnel reassigned to the operational entities or eliminated altogether. In doing this, savings of LKR 101 million can be made.

[23] This was by no means a comprehensive review, due to limited time and resources, however, there is merit in bringing to these observations to the forefront of this discussion; the challenges that the Committee was able to garner from the interactions facilitated by the Ministry of Finance have been outlined here, with recommendations made accordingly.

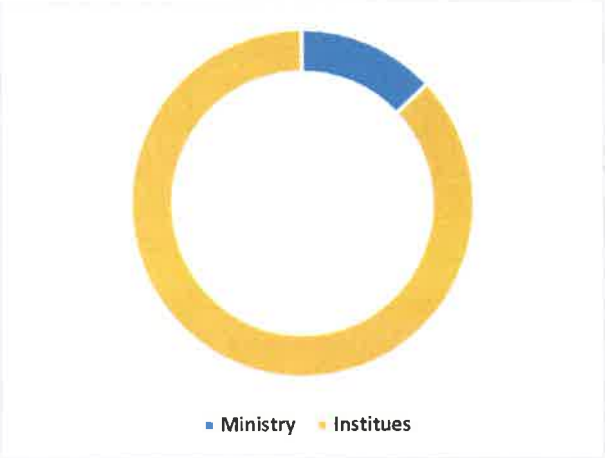

Figure 5: Expenditure by the Ministry and the institutes

Table 4: Budget of the Research and Innovation Section for the Ministry, 2023

Description	Recurrent (LKR millions)	Capital (LKR millions)	Total (LKR millions)	%
Administration and Establishment	171.91	10	181.91	58.3
Scientific Development Programme	0	52	52	16.7
Planetarium	28.98	18	46.98	15.1
Improving Degraded Soil	0	10	10	3.2
Prototype Manufacturing of Solar Panels	0	20	20	6.4
Implementation R & D Investment Framework	0	1	1	0.3
Sub Total	200.89	111	311.89	

3.4.2 Analysis of the expenditure of institutes under the Ministry's purview

Among the institutes that were encountered by the Committee in the process of this review, there is reluctance to reduce budgets by justifying their necessity. One option is to require each institute to reduce its capital expenditure by 10%. If they do so, savings of LKR 103 million can be made (Table 5). However, there is a danger in protecting salary expenditures and compelling cuts in other expenditures because the overall amounts are quite small. The ratio of grants to administrative expenditures from 2018 may be used as a benchmark to ensure that grants for research are preserved and that any cuts will be accompanied by reductions in administrative expenditures.

Table 5: Budget 2023- Research & Innovation Section– Institutes

Description	Recurrent (LKR millions)	Capital (LKR millions)	Total (LKR millions)	Reduction of Capital Expenditure by 10%	Savings from 10% in capital expenditure reduction	Reduction of non-salary recurrent expenditure	Savings from cut down of non-salary recurrent expenditure
Arthur C. Clarke Institute for Modern Technologies (ACCIMT)	190	50	240	45	5	185.3	4.8
National Engineering Research and Development Centre (NERDC)	323	60	383	54	6	314.9	8.1
National Science Foundation (NSF)	165	70	235	63	7	160.9	4.1
National Research Council (NRC)	33.5	80	113.5	72	8	32.7	0.8
National Institute of Fundamental Studies (NIFS)	235	80	315	72	8	229.1	5.9
National Science and Technology Commission (NASTEC)	38.5	20	58.5	18	2	37.5	1.0
Sri Lanka Inventors Commission (SLIC)	50	35	85	31.5	3.5	48.8	1.3
Sri Lanka Institute of Nanotechnology (SLINTEC)		150	150	135	15	0.0	0.0

National Innovation Agency (NIA)	26	5	31	4.5	0.5	25.4	0.6
Sri Lanka Institute of Biotechnology (SLIBTEC)		480	480	432	48	0.0	0.0
Sub total	1,061	1,030	2,091	927	103	1,034.5	26.5

Furthermore, reducing some non-salary recurrent expenditure can help to accommodate current economic shocks. For example, if each institute examines what the non-salary recurrent expenditure is and then attempts to cut down the recurrent cost by 2.5%. It is assumed that such a reduction will not function as a constraint to its functioning. Table 5 shows that by doing that savings of LKR 26.5 million can be made. Altogether we suggest 129.5 million savings to the Treasury for its 2023 budget expenditure.

The Committee did not receive the amount of revenue generated through the activities of any of the institutes, except SLINTEC. Although some can say their mandate is to carry out scientific research or embark onto innovations, they have not realized how their work can be capitalized to generate revenue for their institutes. There are many examples available even from Asia-Pacific Region for such efforts[24]. It is quite essential that our science and innovation sector learns from the good practices drawn from other countries.

It is understood that science, technology and innovation are key to improving economic performance and social well-being. However, if the Sri Lankan government wants to obtain the benefits from this transformation it will have to put the right policies in place. Limits on public spending where duplicates and unnecessary spending occur, increased competition and globalization, changes in the drivers of the innovation process, and a better understanding of the role played by science and technology in economic performance and societal change, have led governments to sharpen their policy tools[25]. In this context, the Ministry must become a facilitator, enabling business and consumers to adapt to the demands and opportunities of the new economy. It is a well-known fact that scientific advances and technological change are important drivers of economic performance in any country. The science and innovation sector should realize that the ability to create, distribute and exploit knowledge is a major source of competitive advantage, wealth creation and improvements in the quality-of-life requirements.

[24] https://www.unido.org/sites/default/files/files/2022-03/STI_Policies.pdf
[25] https://www.oecd.org/science/inno/1918259.pdf

4.0Recommendations

4.1 General Education (See also Section 3.1)

4.1.1 Recommendations for the sector

1. **Execute existing strategic plan of Department of Examinations**: The execution of the existing strategic plan of Department of Examinations should be prioritized, including the redesign of content of national examinations (Grade Five Scholarship, Ordinary Level and Advanced Level).

2. **Reposition national schools under the provincial departments of education**: The repositioning of national schools under the provincial departments of education should also be completed.

3. **Reduce the number of schools with less than 100 students and making optimal use of those resources**: Demographic and aspirational factors are converging to create a large number of unviable and low-quality schools (1,500 with less than 50 students; another 1,500 with less than 100 enrolments). Officials are cautious about closing these schools. The Ministry's plans to build housing for teachers on these locations may be unrealistic in the current economic conditions. It is unlikely that not all of these locations will be attractive for middle class housing, even if private investments were available in the context of PPPs. A broad consultative process to identify alternative uses for these properties and buildings is advisable.
    a. Resistance to the change may be managed by providing guaranteed places in attractive large schools for the students of the closed schools.
    b. If income can be generated from these lands and buildings, it may be possible to ease the transition to more distant schools (by, for example, providing transportation subsidies to parents for a specified duration).
    c. Teachers in these schools can be redeployed.
    d. Costs of programs such as providing electricity and sanitary facilities can be reduced.

4. **Revisit scope of Department of Educational Publications**: It is recommended that the activities of the Department of Educational Publications (DEP) be re-examined for improvements of efficiency. It is recommended that the functions of the DEP be handed over to the Ministry, and the human resources of the Department (291 employees) be utilized for the activities of the Ministry.

5. **Explore options to reduce the costs of publication of educational material and issuance of uniforms, including means-tested support for those deemed in need:**
    a. More cost-effective options for the printing of textbooks (for example in India) should also be explored, as well as the options of digital versus paper workbooks being used for cost efficiencies. If effective action is taken on textbook expenditures, more can be allocated to other programs, most importantly nutrition; expenditures on nutrition must be increased immediately, even if they are stepped down as the country emerges from the crisis.

b. PPP options can be explored for products such as teacher guides for which there appears to be demand. With the shift to workbooks where no reuse is possible, costs will further escalate. It may be necessary to resuscitate the plan to issue tablet computers, though the initial and recurrent costs will have to be carefully assessed in light of current financial exigencies.
c. As has been indicated by the WBB Chairman, the use the WBB registry to apply means-testing for the issue of textbook and uniform support, should continue to be explored.

6. **Integrate National Education Commission with the Ministry of Education and prioritization of policy formulation**: Policy formulation through the National Education Commission, giving priority to the development of standards in coordination with NIE, and the assessment of learning outcomes with the Department of Examinations. Reform of the Department of Examinations should also be a priority to ensure focus on learning outcomes.

7. **Shift non-core activities to Provincial Departments of Education**: Non-core activities involving engineering works, administration of "national schools" should be carried out by Provincial Departments of Education, whether foreign or domestically funded.

8. **Target facilities at families identified as multi-dimensionally poor under Aswesuma programme**: Many countries limit subsidies and the free provision of items such as textbooks and uniforms to children from poor families. For example, in India the central government and states differentiate between those from BPL [below poverty line] and non-BPL families. In the Sri Lankan system, there was no such differentiation, possibly because of concerns about the accuracy of the poverty line. Now that the state is establishing a mechanism to identify families experiencing multi-dimensional poverty as part of the Aswesuma program and to periodically update the classification, it would be possible for the GE sector to provide facilities such as free textbooks, and uniforms to children whose families are included in the register and to partially subsidize the provision of those facilities to others. This would allow better use of constrained budget allocations.

9. **Introduce non-academic soft-skills program at school level**: Programs which inculcate non-academic soft skills should be introduced and made compulsory for students at A-Level. Programs should encourage skills development, etiquette, community service, etc., similar to programs such as 'The Duke of Edinburgh's International Award.' Such programs have no exams and can be assessed at school. Such an initiative will not only develop students' overall personality but will require students to depend more on their schools before they move into higher education or employment. While financial provisions should be made for this, it is not expected to be a costly exercise and might be worthwhile making a budgetary allocation for the schools that have A-levels to signify government's interest in providing a broad exposure, especially at a time when the reforms are getting delayed.

4.2 Higher education (See also Section 3.2)

4.2.1 Budgetary adjustments recommended for 2023

1. **Maintain 2023 levels of expenditure on establishment activities, except for essential services:** Preserve 2024expenditures on establishment activities at 2023 levels, with the exception of establishment services which can be regarded as essential. These changes (Table 2) can result in savings of approximately LKR1.4 billion.

2. **Cap increments on development activities:** Cap the increment in expenditures on development activities between 2022-2023 at 10%. These changes (Table 3) can result in savings of approximately LKR1.01 billion.

4.2.2 Further recommendations for the sector

The following recommendations are made after critical evaluation of the higher education sector and government spending in order to address the gaps in the sector:

3. **Strengthen universities with an outward-facing approach:** It is important to recognize that Sri Lankan universities must regularly retrain and upgrade their skills to remain relevant. This is vital to come out of the present economic crisis and driving identified powerful forces towards promoting export-oriented economic growth. The goal of such economic strategy must ensure that Sri Lankan universities will contribute significantly to the economic growth of the country. In this respect, Sri Lankan universities need to explicitly adopt the following three strategies:
    i. Expand and diversify international networks
    ii. Acquire and employ deep skills
    iii. Build robust digital capabilities. Investment in network infrastructure, digital infrastructure and academic infrastructure needs to be expanded. Funds saved on reductions in capital projects (construction) can be used to support these activities.

4. **Promote inter-faculty teaching in universities to better equip graduates for the future:** Interdisciplinary nature to the university curriculum can be introduced by bridging different disciplines together in order to improve students critical reasoning skills, practicing the arts of discussion, collaboration, and compromise both inside and outside the classroom, and debate matters of public importance. Technological education is extremely critical for the development of an industrial society, but it is also important to acknowledge the fact that employers value softer skills such as creativity, the ability to think outside the box, and openness to multiple perspectives. Therefore, today's context, it is vital that liberal arts education to line with technological sciences by promoting inter-faculty teaching in the Sri Lankan universities, a mechanism which will improve the entrepreneurship and employable aspects of the students.

5. **Adopt a shared-service approach within universities for cost efficiencies:** It is proposed here that the universities must adopt a unique, network-based shared services model

where faculty, staff, and students could conveniently access personalized services. A single, larger transactional service centre, built in line with corporate shared services leading practices, can be designed to support the substantial volume of administrative work and transactional processing.

6. **Increase the internationalization of graduate education and research:** The internationalization of graduate education and research, together with international co-authorship and other international research benchmarks need to be strengthened in order to enhance the quality of post-graduate programmes which will in turn improve the quality of undergraduate education. Research in Sri Lankan universities needs more international collaboration to promote its quality. Additionally, and most importantly, the recruitment of foreign students in Sri Lankan universities can contribute to institutional income and to national economic interest, which is very much timely at present.

7. **Strengthen links between universities and the private sector, accelerate existing collaborations:** Establishing closer links between universities and industry is very important because the relationship between those two can nurture economic development of a country and this is very relevant to Sri Lanka in the present context. With the support of the World Bank's AHEAD Project, Sri Lankan universities have established University-Business Linkage (UBL) Cells in every university, and it is essential now to speed up their activities in the next three years for: (i) encouraging product development in a collaborative effort; (ii) generating industrial income to universities; (iii) training of undergraduates in necessary skills to improve their employability and placing them for appropriate internships.

8. **Enhance support the private sector in the provision of services through an enabling environment, establishment of registration and quality assurance procedures:** There appears to be insufficient acknowledgement of the crucial role played by the private sector in all segments of education. It is imperative for the government to enhance its support for this sector, especially through measures such as reviewing corporate taxes. Additionally, it is advisable to establish registration procedures and quality assurance standards for private sector entities, while ensuring that excessive bureaucracy is avoided.

9. **Facilitate funding of commercially relevant research to promote spin-offs:** Not all Sri Lankan universities to adopt the entrepreneurial model but universities that are already showing progress in entrepreneurial aspects and have established close links with the industry and their proximity to industrial zones as well as the universities which are capable of setting up spin-offs. The funding of academic research plays a crucial role in the creation of university spin-offs. The magnitude of the investment in research or intellectual infrastructure certainly contributes to university spin-off activities.

10. **Implement procedure outlined in paragraph 17 of the 2023 Budget Speech with regards to all new projects and programs:** Given the challenges of providing the required buildings and facilities for the current medical faculties such as the University of Moratuwa faculty, which is about to admit the third intake, a solution must be found for

the newly proposed medical faculty at Uva-Wellassa University. The solution may be found in paragraph 17 of the 2023 Budget Speech: it is stated therein that all new projects/programs should be submitted to the National Planning Department **after** conducting a feasibility study to include financial, economic and technical aspects by the line agency/ministry. It is recommended that this procedure be followed for all new HE initiatives without exception, starting from the Uva-Wellassa medical faculty.

11. **Re-organize institutions under Ministry of Education**: The listing of institutions coming under the Ministry should be reorganized. For example, state universities currently come under the authority of the UGC. They should be so listed. Similarly, other entities should be clustered for more effective functioning and oversight. Attention must be paid to the span of control. Alternatively, if no positive value is generated by the intermediary institution (e.g., the UGC), it should be wound up.
    a. Ideally, the UGC will be reformed and restructured to include at a minimum the universities currently not under its authority. Ideally, the standard-setting and quality-assurance component will be separated from the entity managing the funding. Currently, the loans to students who are not admitted to state universities are managed directly by the Ministry. When this program is expanded and integrated with a scheme of tertiary education accounts, a specialized agency or unit will be required for prudent management of funds.[26] Mismanagement and leakage are likely without a specialized agency. This entity may be free-standing, or established as a unit within the UGC, and should also be tasked with regulating quality.

12. **Prioritize capital projects in the HE sector based on their stage of completion and their potential to stimulate economic growth**: In light of Sri Lanka's ongoing economic crisis, it is crucial to address the issue of infrastructure development. Given the limited resources available, it is imperative to carefully allocate funds to projects that can have an immediate impact on the economy. Therefore, it is important to consider the following approach:
    b. Firstly, the completion of infrastructure projects that are in their final stages of construction should be prioritized. These buildings should be expedited to ensure they are completed and put to use as soon as possible. By attending to the finishing touches and necessary enhancements, we can make these structures operational and contribute to the development of the respective sector.
    c. Secondly, for infrastructure projects that are currently halfway completed, a thorough evaluation should be conducted to determine their feasibility and potential benefits. If such projects show promise in terms of their contribution to the growth of that sector and can be completed within a reasonable timeframe, efforts should be made to bring them to fruition. By reassessing their progress and taking appropriate measures, these buildings are utilized effectively.

[26] Now LKR 1 billion is spent on interest payments for loans granted to 14,000 students.

d. For infrastructure projects that are still in the planning or early construction stages, it may be necessary to put them on hold temporarily. Given the economic constraints, it is essential to prioritize immediate needs and focus on projects that can yield tangible results in the short term. However, it is crucial to develop a common policy that outlines the criteria for resuming these projects in the future, considering factors such as their potential impact on the economy and long-term sustainability.
e. No new building projects (and actions that require new buildings) should be commenced without the feasibility studies and related procedures set out in paragraph 17 of the 2023 Budget Speech.
f. While it is understandable that various sectors have expressed concerns regarding funding for construction, a careful and strategic approach to infrastructure development is vital in the current economic climate. By prioritizing projects based on their stage of completion and their potential to stimulate economic growth, the most effective use of limited resources can be made, and Sri Lanka can be steered towards a path of recovery and stability.

13. **Conduct a study on international best practices for a tertiary education (HE and TVET) funding scheme to provide subsidised loans:** It is increasingly evident that a tertiary education funding scheme which provides subsidized loans to cover some of the costs of providing publicly funded tertiary education is required, especially for high-employability and earning capacity courses such as medicine, and those offered at CGTTI among others. This is becoming an urgent necessity in light of the rapidly increasing cost of supporting state universities and TVET institutions and the inability to capture the benefits of those investments because of out-migration of professionals. A scheme that provides an increasing proportion of funding for tertiary education through loans that can be repaid by fulfilling defined public-service obligations will address the problem of ever-escalating tertiary education expenditures as well as the leakage of human capital thus developed to other countries. However, the modalities of such a scheme are complex.[27] It is therefore proposed that a thorough study is commissioned to understand the different designs and options which have been implemented successfully in other countries. Based on the learnings from the study, an appropriate funding scheme can be devised for other tertiary education sectors. See Annex 2 for an illustrative example of one option for a funding scheme design.

14. **Conduct a study of international best practices in university selection process, with an aim to increase autonomy in selection:** In the long term, universities should have more autonomy in the selection of their students so that the selection is not made entirely on A-Levels or the Z score. This too will encourage the students to take a more all-round approach in their learning and development, rather than an exam-centric approach. This can potentially reduce students' dependency on tuition – an industry that is detrimental

[27] https://educationforum.lk/2023/05/policy-dialogue-21-meeting-the-demand-for-higher-education-strategies-australia-bangladesh/

to the overall education and wellbeing of students. Furthermore, the lack of autonomy in selection within universities only reinforces poor quality, and restricts universities' ability to explore revenue generating opportunities, as well as engage in international collaborations on research. Therefore, universities require greater autonomy in the selection of students, while noting the need for safeguards and precautions to ensure vulnerable groups are not excluded. In this regard, international best practices should be studied, specifically looking at the mechanisms and criteria for selection. Competition for students between universities will force universities to raise their standards to survive.

15. Streamlining **of grant funding through Research Management Units (RMUs) in universities to facilitate receipt of grants for research and other academic collaborations:** International as well as local (industry) collaborations on research, training and other activities are crucial to maintain the quality of education and research in the local universities, and to share and sharpen Sri Lankan academics' knowledge and expertise beyond the Sri Lankan university ecosystem. The process of receiving grant funds (especially foreign fund) for collaborations is lengthy and complex. There is a need to relax regulations and red tape with regards to receiving funds for such collaborations (e.g., receiving foreign finances). Reinstating RMUs within universities, through which the respective universities can receive funds (foreign or local) directly with necessary safeguards is therefore recommended (including declaring all funds received in annual reports).

4.3 Skills Development and Vocational Education (See also Section 3.3)

4.3.1 Budgetary adjustments recommended for 2023

1. **Review Capex in the TVET sector to minimize expenditure:** Firstly, it is important to prioritize the capital works for each institution in the TVET sector by linking with the productivity and efficiency growth in the sector. Those projects which have not been initiated must be put on hold and others must be scrutinized. Secondly non-salary component of Opex must be reviewed and request each institution to adopt a policy to minimize the usage of utilities such as electricity, water, communications etc. and reduce their non-salary operational costs. Although the government has already issued a directive in this regard, this must be reviewed at least quarterly and adjust the consumption pattern, accordingly.

2. **Reduce 2023 budgetary estimates for the sector by 10 % (both recurrent and capital expenditure):** These changes can lead to savings of LKR 1.2 billion.

3. **Merge VTA and NAITA:** This is recommended to reduce duplication and wastage.

4.3.2 Further recommendations for the sector

The following recommendations are made after critical evaluation of the skills development and vocational education sector and government spending in order to address the gaps in the sector. Implementing these recommendations will require a collaborative effort from various stakeholders, sustained financial investment, and a long-term commitment to transforming the vocational and skills development sector in Sri Lanka. By focusing on these strategies, Sri Lanka can build a skilled and competitive workforce, foster economic growth, and address the demands of a rapidly evolving job market.

4. **Measures to improve the quality of training:**

    a. Establish a robust labour market monitoring mechanism to address skills gaps and talent shortages. Analysing data on school dropouts and individuals who do not qualify for traditional universities will help align vocational training programs with changing job market needs.
    b. Set clear and appropriate annual targets to drive growth and efficiency in the TVET sector. Measurable objectives will focus on expanding vocational education and improving qualification levels.
    c. Offer practical learning opportunities within the vocational education curriculum to equip graduates with hands-on skills that match industry needs. Ensure TVET qualifications facilitate further studies and career advancement opportunities.

5. **Strengthen quality of course offerings and employability of students through accreditation:**
    a. Foster partnerships with internationally recognized vocational education providers such as TAFE in Australia and BTEC in the UK to enhance the global standing of Sri Lankan TVET programs.

b. Collaborate with large international employers to offer courses tailored to their specific needs, creating a direct link between trainees and potential employers.
c. Involve the private sector in curriculum design, skill requirements, and sponsorship of trainees, resulting in a mutually beneficial arrangement that ensures a skilled workforce for employers.

6. **Encourage the provision of services through TVET centres to generate additional revenue and internship opportunities:**
   a. Leverage the potential of TVET training centres to offer technical services related to various industries, generating additional revenue and valuable internship opportunities for students.
   b. Establish a reputation for high-quality workmanship and reliability through service provision, attracting more customers and businesses to the training centres.
   c. Collaborate with the private sector to access a broader customer base, specialized expertise, and innovative joint ventures.

7. **Adopt a PPP model to amplify the impact of key recommendations**: In order to achieve the goals of enhancing skills development and vocational education, the adoption of a public-private partnership (PPP) model could further amplify the impact of the key recommendations. The PPP approach would enable collaboration between government entities, educational institutions, and private sector organizations, fostering innovation, resource-sharing, and sustainable funding to ensure the success of the proposed training, accreditation, and service initiatives. By leveraging the strengths of each stakeholder, the skills development and vocational education sector can forge a path towards a more robust and adaptable system that meets the evolving needs of both learners and industries.

8. **Prioritize capital projects in the TVET sector based on their stage of completion and their potential to stimulate economic growth:** In light of Sri Lanka's ongoing economic crisis, it is crucial to address the issue of infrastructure development. Given the limited resources available, it is imperative to carefully allocate funds to projects that can have an immediate impact on the economy. Therefore, it is important to consider the following approach:
   a. Firstly, the completion of infrastructure projects that are in their final stages of construction should be prioritized. These buildings should be expedited to ensure they are completed and put to use as soon as possible. By attending to the finishing touches and necessary enhancements, we can make these structures operational and contribute to the development of the respective sector.
   b. Secondly, for infrastructure projects that are currently halfway completed, a thorough evaluation should be conducted to determine their feasibility and potential benefits. If such projects show promise in terms of their contribution to the growth of that sector and can be completed within a reasonable timeframe, efforts should be made to bring them to fruition. By reassessing their progress and taking appropriate measures, these buildings are utilized effectively.
   c. For infrastructure projects that are still in the planning or early construction stages, it may be necessary to put them on hold temporarily. Given the economic constraints, it is essential to prioritize immediate needs and focus on projects that

can yield tangible results in the short term. However, it is crucial to develop a common policy that outlines the criteria for resuming these projects in the future, considering factors such as their potential impact on the economy and long-term sustainability.

d. No new building projects (and actions that require new buildings) should be commenced without the feasibility studies and related procedures set out in paragraph 17 of the 2023 Budget Speech.

e. While it is understandable that various sectors have expressed concerns regarding funding for construction, a careful and strategic approach to infrastructure development is vital in the current economic climate. By prioritizing projects based on their stage of completion and their potential to stimulate economic growth, the most effective use of limited resources can be made, and Sri Lanka can be steered towards a path of recovery and stability.

9. **Conduct a study on international best practices for a tertiary education (HE and TVET) funding scheme to provide subsidised loans:** It is increasingly evident that a tertiary education funding scheme which provides subsidized loans to cover some of the costs of providing publicly funded tertiary education is required, especially for high-employability and earning capacity courses such as medicine, and those offered at CGTTI among others. This is becoming an urgent necessity in light of the rapidly increasing cost of supporting state universities and TVET institutions and the inability to capture the benefits of those investments because of out-migration of professionals. A scheme that provides an increasing proportion of funding for tertiary education through loans that can be repaid by fulfilling defined public-service obligations will address the problem of ever-escalating tertiary education expenditures as well as the leakage of human capital thus developed to other countries. However, the modalities of such a scheme are complex.[28] It is therefore proposed that a thorough study is commissioned to understand the different designs and options which have been implemented successfully in other countries. Based on the learnings from the study, an appropriate funding scheme can be devised for other tertiary education sectors. See Annex 2 for an illustrative example of one option for a funding scheme design.

[28] https://educationforum.lk/2023/05/policy-dialogue-21-meeting-the-demand-for-higher-education-strategies-australia-bangladesh/

4.4 Science and Innovation (See also Section 3.4)

4.4.1 Budgetary adjustments recommended for 2023

1. **Reassign programmes to more relevant institutions for cost efficiencies**: The following reassignments are recommended; these changes can lead to a savings of LKR101million:
    a. The Scientific Development Program should be handed over to the NSF.
    b. The Planetarium should come under the ACCIMT.
    c. Improving degraded soil should be handed over to NIFS or the Department of Agriculture.
    d. Prototyping solar panels should be moved to the NERDC or ACCIMT.

2. **Reduce non-salary recurrent expenditure by 2.5%:** This can lead to savings of LKR 26.5 million

4.4.2 Further recommendations for the sector

3. **Reduce barriers to spin-off formation**: Research institutions and business must interact, including public/private research networks, research contracts, licensing, joint publications, flows of students from universities to industry, and so on. Spinoff firms from universities and other research institutions, for instance, are a vital component of innovation networks and can play an increasingly valuable role. The Ministry can help lower certain obstacles to spin-off formation.

4. **Reduce barriers to mobility of scientists**: The mobility of scientists between science and industry is also an important channel of interaction which can support innovation. The lack of transferability of persons between the public and private sectors is a major barrier to the mobility of researchers. More specific constraints include public employment legislation, rules on temporary mobility and secondary employment and regulations on academic entrepreneurship. These aspects have to be seriously looked at and relaxed.

5. **Improve the interaction between science and industry**: Given the large public role in R&D in Sri Lanka, the technological absorption capacity of the business sector is not very well developed. Therefore, it is very essential to improve the interaction between science and industry to avoid duplication of R&D and to make science more responsive to business needs.

6. **Introduce appropriate measures to strengthen competition, facilitate networking and co-operation, strengthen links between science and industry and increase returns to investment in R&D**: It is quite important to recognize that Sri Lanka's ability to respond to rapid technological change happening around the globe greatly depends on the availability of the right set of skills and well-functioning product and capital markets as these factors sustain an environment conducive to innovation and receptive to new technologies. It appears this aspect is lacking in Sri Lanka. The government of Sri Lanka needs to introduce appropriate measures to strengthen competition, facilitate networking and co-operation, strengthen links between science and industry and increase returns to investment in R&D. Openness to technologies from abroad is also crucial and in this

aspect, improving the business climate, strengthening competition, pushing firms to improve performance, and enabling innovation and growth to flourish can be regarded as very significant factors that can link science and innovation to drive growth in the economy.

7. **Increase competition in technology sectors:** The experience in other countries shows that competition is a necessity. Firms invest in innovation and in efficiency-enhancing technology if they can expect sufficient returns and if competition forces them to do so. Competition is also important for driving down the cost of technology. For example, the high rate of investment in ICT is closely linked to the extremely rapid price decline for computing equipment. This is crucial for diffusing digital technologies throughout the economy. Technological change itself has also resulted in the removal of the monopoly character of many parts of the telecommunications market and thus contributed to the introduction of greater competition and regulatory reform.

Signatures

This report is submitted to the Secretary, Ministry of Finance by:

..... 2023.08.11
Mr. A.K.D.D.D. Arandara (Chairman) — Date
Additional Director General, Department of Legal Affairs

..... 11.08.2023
Mr. M N Ranasinghe — Date
Secretary, Ministry of Education

..... 11 Aug 2023
Prof. Rohan Samarajiva — Date
Chairman, LIRNEasia

..... 11.08.2023
Dr. Harsha Alles — Date
Chairman, Gateway Group

Digitally signed
11.08.2023
Senior Prof. Lakshman Dissanayake — Date
Emeritus Professor, Former Vice Chancellor, University of Colombo

5.0Annexes

Annex 1
State funding of higher education versus general education

In their 2005 report titled "Treasures of the higher education system in Sri Lanka," the World Bank noted that:

[T]he pattern of average recurrent expenditure across education levels suggest that, in contrast to high performing East Asian countries, the balance of public resources in Sri Lanka may be tilted unduly in favor of tertiary education at the expense of primary and secondary schooling.

Sadly, the situation has worsened since then. If the per capita public spending for university education was six times that for school education in 2000, today the ratio has risen to thirteen.

... ...

(3) Per capita student spending is disproportionately high for universities

Contrary to warnings by the Bank about our education spending being unduly tilted towards higher education, the share of higher education funding continued to increase thanks to the powerful university lobby.

In 2010, per student spending for universities at Rs:181,064 was nine times higher than the spending per students in schools at Rs:23,267. By 2020, per student spending for universities stood at 502,172 and was thirteen times higher than the per student spending in schools at 39,126.

... ...

A comparison with South Korea drives home the point.

In 2019 South Korea spent USD 15,641 per student on School education while spending only USD 11,287 per student in universities. In contrast, converting per student spending to dollars at the rate of 330 rupees per dollar, Sri Lanka spent USD 1,579 per student in universities while spending only USD 118 per student in schools.

Essentially South Korea spent only 0.72 dollar per student in universities for every dollar spent per student in school, while Sri Lankas spent 13.40 rupees per student in universities for every rupee spent per student in schools.

As noted elsewhere:

"The Korean government has since Korea's independence continuously expanded the provision of free education to all students in a step-by-step approach beginning with primary education culminating in universal primary education 1959, it expanded free education to middle school (1985~2005) and will expand to high school (expected in 2017).

The OECD average for percent government spending on education at 10% compares well with Sri Lanka, but Sri Lanka's bias towards free higher education at the expenses of school education is an unusual situation.

It is high time policymakers in Sri Lanka took note of this lop-sided funding situation which has been going since 2000 or before.

(4) Lop-sided education priorities and underdevelopment in India and Sri Lanka

Ashoka Mody, the author of the 2022 book "India is broken: A People Betrayed, from independence to date", says in an interview with Karan Thapar that the policies followed by governments since independence in India – whether industrial, agricultural, education or health – were poorly designed to tackle the problems India faced. Regarding education, he notes how Nehru prioritized IITs for a select few over basic education for the masses. As he further notes, every country in its initial stages invests in primary and secondary education. Nehru neglected mass education and focused on institutions that he thought would harness science and technology in the service of India, but these institutions functioned as islands of excellence benefitting those who were educated but not the masses" [19-21 minutes into the interview].

A similar issue was raised by Dr. N. M. Perera as far back as 1943 in his booklet "The Case for Free Education" which critiqued Dr. Kannangara's hasty and last-minute decision to declare all education shall be free from kindergarten to university. As he noted, in practice it meant that only 5% of students who were selected through a scholarship examination would go onto university, but there were no budget provisions to give a quality basic education to the remaining 95% of which about half would never attend school or dropped out.

As Dr. N. M. Perera notes: "It were better to see that compulsory education up to 14 is properly enforced before embarking on a grandiose scheme of free education."

After nearly eighty years we are in same the situation. Education is geared towards 8% who go onto universities while learning for the rest is compromised by the examination centred approach adopted. A recent assessment of students in Grade 3 by the Ministry of Education is a case in point. Only 7% were able to show all essential competencies in literacy and 12% in numeracy.

[Excerpted from Gamage Sujata (2023 April 26), *Why provide free higher education for 8% at the expense of essentials of learning for 92%?*, Daily FT. https://www.ft.lk/columns/Why-provide-free-higher-education-for-8-at-the-expense-of-essentials-of-learning-for-92/4-747686]

Annex 2
Tertiary education accounts

1.0 A tertiary education (HE and TVET) funding scheme that provides subsidized loans to cover some of the costs of providing publicly funded tertiary education is becoming an urgent necessity in light of the rapidly increasing cost of supporting state universities and TVET institutions and the inability to capture the benefits of those investments because of out-migration of professionals. A scheme that provides an increasing proportion of funding for tertiary education through loans that can be repaid by fulfilling defined public-service obligations will address the problem of ever-escalating tertiary education expenditures as well as the leakage of human capital thus developed to other countries. However, the modalities of such a scheme are complex.[29]

1.1 It is therefore proposed that a detailed study be undertaken in the medical faculties of state universities and in the CGTTI to ensure that state expenditures on tertiary education serve Sri Lankan public-policy objectives. The loss of trained personnel to foreign countries would no longer be a cause for futile complaint, but a means to supplement the state expenditures on tertiary education. The scheme can be fruitfully articulated with the loan scheme offered to those who obtain degrees from non-state universities located in Sri Lanka.

1.2 An example of an option that could be implemented for medical faculties is as follows:

1.2.1 The best performers at the GCE (A-Level) examination should continue to be admitted to government medical faculties according to Z scores as at present. The only difference is that the costs would be billed to a tertiary-education account in the student's name. The considerable amount of taxpayer money spent on a medical student at a government university will be calculated and made publicly available. The government will guarantee bank loans up to that amount for any student who wishes to enrol in any accredited private medical school located in Sri Lanka.

1.2.2 All medical graduates, from public and private medical schools, will be offered opportunities to serve in government medical establishments. Depending on the difficulty of the postings and duration, the amount owed to the government by graduates of government medical schools will be forgiven. For those who work long enough, in tough enough places, education will be completely free. If the beneficiary does not wish to work in a rural area or wishes to leave the country, he will be obligated to repay the balance remaining in the tertiary-education account.

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[29] https://educationforum.lk/2023/05/policy-dialogue-21-meeting-the-demand-for-higher-education-strategies-australia-bangladesh/

1.2.3 Graduates of private medical schools who undertake duties in difficult areas will also have their loans forgiven based on the same formula used for government graduates. They may still have financial obligations if the private educational establishments charge more than what it costs to train a graduate in a government establishment. But they would still be ahead of where they are now.[30]

1.2.4 Enforcement of the obligation will require the articulation of the tertiary education accounts database, the central and provincial departments of health, and the border control system of the Department of Immigration and Emigration. Treatment of those completing their training but not serving in state hospitals, etc., would have to be worked out through the study.

1.3 The lack of a dominant employer such as the state health system would make the design of the scheme for CGTTI graduates more challenging. The purpose of a study is to work out these modalities.

2.0 TVET is the neglected part of the education system in Sri Lanka, with only 2.5% of the total education sector allocation. However, if the economy is to be transformed into one that gives primacy to high-value export of goods and services, the middle layer of technology managers will become more important, whether their credentials are described as degrees or diplomas.

2.1 This would require a change from the defensive posture currently adopted by TVET officials where their primary argument is that the TVET system serves students who come from poorer households. TVET qualifications are to be valued for their own sake, not portrayed as consolation prizes for those who could not make it into state universities.

2.2 The proliferation of TVET institutions by various governments has resulted in a dysfunctional system with inadequate attention to quality and responsiveness to the requirements of industry. One consequence has been misallocation of scarce resources to administrative functions in institutions with unclear remits.

3.0 The above-described example of a tertiary education funding mechanism will make more efficient use of public funds whilst expanding access by permitting private supply of tertiary education facilitated by state-subsidized loans to students. However, the problem of tertiary education pulling scarce funding resources away from general education described in Annex 1 requires attention.

3.1 It is to be expected that the per-capita costs of providing tertiary education will be greater than that of providing general education.

3.2 According to the OECD, in most countries, the public economic returns are positive for every educational level and highest at the tertiary level, mostly because of the greater taxes and contributions governments receive from the higher salaries of more educated people. Investing in post-compulsory education is also more expensive, but governments can encourage more cost-

[30] https://www.ft.lk/Columnists/policy-on-medical-education-means-and-ends/4-596217

sharing and co-financing options at this level, given the substantial benefits for individuals of obtaining tertiary education. The greater the interest of individuals in investing in tertiary education, the lower the need for governments to put forward subsidies such as grants and loans thus the higher the public returns. This may also allow governments to further invest in other important areas, such as early childhood education and care, for example, which has demonstrated public returns as well as long-term benefits for individuals and societies; or to further subsidize tertiary level education for disadvantaged students.[31]

3.3 Further careful study is required to determine the optimal approach for Sri Lanka, however.

[31] https://gpseducation.oecd.org/revieweducationpolicies/#!node=41762&filter=all

Annex 3
Education in Crisis: Research Highlights

Research Highlights: Education in Crisis
LIRNEasia, June 2023

Context
The economic crisis has impacted many facets of people's lives. Education is no exception. LIRNEasia's research, which includes a nationally representative survey, provides some insights into people's lived experiences between October 2022 and March 2023.

Findings
Households, on average, spent 64% more on education in 2023 than in 2019. Parents spoke of the prohibitively high costs, including those of new stationery items such as exercise books and transportation costs.

> *An exercise book now costs about Rs. 170, so we are unable to buy our children new books. So now we take their old books, tear off the unused pages, and ask the children to use those.*
> - Amitha (name changed for privacy), 43, SEC C, Colombo

Children in select areas (particularly those in grade 5 and below) received meals at schools. However, these programmes were not available in all schools, including some inside estates. Parents of children who received these meals spoke of these programmes provided yet another reason to send their children to school as "they would receive at least one nutritious meal a day".

While many families managed to rationalize their expenses and continue to send their children to school, some were left behind. In 6.3% of households with children aged 5-19, children had not been sent to school for at least one day during the 30 days prior to survey administration, due to economic hardships. This amounted to 203,000 children.

> *We cannot afford to educate our children. Our main concern is feeding them.*
> - Shanthi (name changed for privacy), 41, SEC E, Nuwara Eliya

> *About half the boys [in the nearby estate] have dropped out of school. They take on odd jobs in the area. They can earn about Rs. 200 if someone calls them up.*
> - Community leader, Badulla.

Tuition has been a staple of the education system in Sri Lanka. However, this is becoming unaffordable to poorer families. In 24.3% of households with children aged 5-19, children had been withdrawn from tuition classes in the 30 days prior to survey administration. In some families with multiple children, parents chose to discontinue tuition for one child, often continuing to provide this additional support for the child who was closest to a national examination such as the Grade 5 Scholarship, O-Level or A-Level examination. Several parents noted that their children's grades had dropped since they had stopped attending tuition.

> *I had enrolled the children for extra classes. It costs Rs. 1,000 a month. But for the past two weeks I didn't send them because I didn't have the money.*
> - Saraswathi (name changed for privacy), 49, SEC E, Kandy

About the research

Surveys were conducted amongst a nationally representative sample of 10,062 Sri Lankan households. The survey was conducted between October 2022 and March 2023 across 400 Grama Niladhari Divisions. National estimates can be made within a 95% confidence interval with a +/-1.4% margin of error. The margins of errors at a district level range from +/-6.2-7.3%. Additionally, qualitative research in the form of key informant interviews, focus group discussions and structured observations were undertaken with 300 individuals across 13 districts. This work was carried out with the aid of a grant from the International Development Research Centre, Ottawa, Canada.

For more information

For more information on this study, please contact Gayani Hurulle, Senior Research Manager (gayani@lirneasia.net). More details on the study can be found at: https://lirneasia.net/ssnresources

Annex 4

Possible solution to misallocations of buildings and facilities among universities

The Medical Faculty at the University of Colombo (UCMF) has been provided with a 14-story new building in proximity to the National Hospital, that it cannot fill. The new Medical Faculty at the University of Moratuwa lacks any buildings and access to a teaching hospital for the students now entering the third year.

It may appear logical to house some or all of the University of Moratuwa medical students in some of the floors of the UCMF building and even if temporarily allow them to be taught at the National Hospital (as the students of the Kotelawala Defence University currently are). However, it is likely that this action, may lead to conflict.

The Post Graduate Institute of Medicine (PGIM) is part of the University of Colombo. Many of its teaching functions are carried out at the recently completed building in Rodney Street in Colombo 8, a few kilometres away from its main building adjacent to the National Hospital. It is unlikely that PGIM's use of part of the new UCMF building will lead to friction. Would it not be possible to move the activities now carried out in Rodney Street to the UCMF new building, within walking distance of the National Hospital and the main building of the PGIM, thereby freeing the Rodney Street premises for the University of Moratuwa Medical Faculty?

There may be practical difficulties in implementing the above solution. However, it exemplifies how rational reallocation of buildings constructed with public funds can be done.

Annex 5

Detailed recommendations for the Skills Development and Vocational Education sector

The key recommendations for enhancing skills development and vocational education can be categorized into three main sections: training, accreditation, and services. These proposals encompass crucial areas for improvement, focusing on equipping students with practical skills through effective training programs, ensuring the recognition and quality of educational offerings through accreditation, and exploring opportunities to provide valuable services that generate revenue and enrich the learning experience. By addressing these core aspects, the skills development and vocational education sector can make significant strides towards meeting industry demands and fostering a skilled and competitive workforce.

Training

Labour market monitoring is a crucial aspect of developing the TVET sector in Sri Lanka. To address skills gaps and talent shortages, it is essential to urgently establish a robust labour market monitoring mechanism. This mechanism will assess the demand for specific skills and jobs in the labour market, providing valuable insights for designing relevant training programs. By continuously analysing data on school dropouts and individuals who do not qualify for traditional universities, the TVET system can better align its offerings with the changing needs of the job market.

To ensure continuous improvement and progress, the TVET sector should set clear and appropriate targets annually. By identifying the demand for vocational education each year, the TVET system can establish measurable objectives to drive growth and efficiency. Time-bound targets, such as halving the proportion of young Sri Lankans without qualifications at Certificate 3 level and above by 2020 or doubling higher VET qualification completions (Diploma and Advanced Diploma) between 2023 and 2030, provide a focused direction for expansion and enhancement.

A key aspect of the TVET system's success lies in providing an effective pathway to both employment and higher education degrees. Offering practical learning opportunities within the vocational education curriculum is essential to equip graduates with hands-on skills that match industry needs. Moreover, to support lifelong learning and career advancement, the TVET qualification should not only serve as a parallel path to formal academic education but also facilitate opportunities for further studies, including pursuing higher education degrees at other universities in Sri Lanka.

By combining labour market monitoring, setting clear annual targets, and ensuring a seamless pathway to both employment and higher education, the TVET sector in Sri Lanka can continuously adapt and grow to meet the evolving demands of the job market. Training the trainers and implementing quality improvement measures in the curricula are also vital components of this development process. Effective training of instructors ensures that they are equipped with up-to-date teaching methodologies and industry-relevant knowledge, enabling them to deliver high-quality training to students. Moreover, regular reviews and

improvements to the curricula based on feedback from industry partners and stakeholders ensure that TVET programs remain current, relevant, and responsive to changing skill requirements. By embracing these approaches, Sri Lanka's TVET sector can thrive, producing skilled and employable individuals, fostering economic growth, and contributing to the nation's development.

Accreditation

The development of the TVET sector in Sri Lanka is crucial for nurturing a skilled workforce that can meet the demands of a rapidly evolving job market. Accreditation plays a vital role in this development, and fostering partnerships with internationally accepted establishments is a strategic move to enhance the sector's global standing and open doors to international opportunities for students.

One of the key aspects of accreditation involves collaborating with renowned international vocational education providers such as TAFE in Australia and BTEC in the UK. These institutions are widely recognized for their high-quality vocational programs and their alignment with industry needs. By partnering with such establishments, Sri Lankan TVET programs can gain international recognition and credibility, making graduates more competitive in the global job market. This, in turn, attracts foreign employers who value the skills and qualifications acquired through these accredited programs.

Additionally, building relationships with large international employers holds immense potential for the TVET sector's growth. By offering courses tailored to the specific needs and requirements of these employers, the TVET institutions can ensure that the trainees are equipped with skills that directly align with the demands of the job market. This approach not only enhances the employability of the graduates but also creates a direct link between the trainees and potential employers.

A noteworthy opportunity for the Private Sector in Sri Lanka lies in playing a major role in this collaboration. Private companies can invest in the development of specialized vocational training programs that cater to the needs of specific industries or sectors. By actively engaging in curriculum design and providing input on skill requirements, these companies can help shape the next generation of skilled workers, ensuring they possess the expertise necessary for the industry's growth.

Furthermore, the private sector's involvement in training provision can extend to sponsorship and funding support. Large international employers can directly employ the trainees, sponsoring their education in return for a commitment to work for the company upon completion of the training. This mutually beneficial arrangement not only offers students a clear career path but also ensures the availability of a skilled workforce for the employer.

In summary, accreditation of TVET programs through partnerships with internationally recognized institutions and large international employers can significantly enhance the development of Sri Lanka's TVET sector. Such collaborations offer students access to the international job market, raise the standard and relevance of vocational education, and foster meaningful connections between trainees and potential employers. By actively involving the

private sector in this process, Sri Lanka can position itself as a hub for skilled talent, attracting global investments and contributing to the nation's economic growth and prosperity.

Services

The TVET sector in Sri Lanka can harness the potential of its training centres to offer a diverse range of services, leading to multiple benefits. Many of the existing TVET centres possess specialized facilities and equipment, which can be leveraged to provide services to the public and industries. By doing so, these centres can generate additional revenue while also creating valuable internship opportunities for their students.

One area where training centres can excel is in offering technical services related to various industries. For instance, centres specializing in air conditioning can provide maintenance and repair services for residential and commercial air conditioning systems, while those focused on aluminium work can offer fabrication and installation services for doors, windows, and other aluminium-based structures. Likewise, centres specializing in automobile mechanics can establish workshops to service and repair vehicles, catering to both individual customers and businesses.

By operating as service centres, these TVET training centres can establish a reputation for high-quality workmanship and reliability. This, in turn, can attract more customers and businesses, leading to a substantial increase in income for the centres. Moreover, the income generated from providing these services can be reinvested into improving the training facilities, acquiring state-of-the-art equipment, and enhancing the overall learning experience for the students.

This expansion into service provision also presents an opportunity for the private sector to play a decisive role. Collaborating with private companies can offer TVET centres access to a broader customer base and specialized expertise. The private sector can contribute by providing technical support, training resources, and industry-relevant insights to the centres. In return, the private sector can benefit from a skilled and job-ready workforce that has been trained on the latest technologies and methodologies.

Additionally, the collaboration with the private sector can open up avenues for joint ventures and innovative projects. For example, TVET centres can collaborate with private companies to offer specialized training programs designed to meet the specific needs of industries. This would result in a win-win situation where the private sector gets access to a skilled workforce while the TVET centres receive direct input and support from industry experts.

In conclusion, transforming TVET training centres into service providers can yield substantial income, while also serving as a platform for students to gain valuable real-world experience through internships. The involvement of the private sector is vital in unlocking the full potential of this endeavour, facilitating innovation, and bridging the gap between academia and industry. Embracing such initiatives can lead to a thriving TVET sector in Sri Lanka, meeting the demands of the job market and contributing significantly to the nation's economic growth and development.

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